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American Banker

The Daily Financial Services Ne

VOL. CLI NO. 239 Friday, December 5, 1986

155389C00015 8/15/05 C11
STATISTICAL REFERENCE INDEX
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TODAY

THE FEDERAL DEPOSIT Insurance Corp. this week issued broader guidelines for banks seeking assistance to keep from failing..... 2

U.S. BANK AND THRIFT institutions tapped the Euromarkets with several new financing innovations in November despite increasingly chaotic trading conditions that at times threatened to shut down the bank market completely..... 2

NCNB CORP., the North Carolina-based bank holding company, said on Thursday that it has agreed to acquire the 70.1% of London stockbroker Panmure Gordon & Co. that it does not already own..... 2

JAMES ROBINSON 3D, chairman and chief executive officer of the American Express Co., told the Securities Industry Association's annual meeting Thursday that the Glass-Steagall Act and the entire financial regulatory structure "is as rickety and unable to support its burdens as a WPA bridge that hasn't been properly maintained in 50 years"..... 3

THE BANKING INDUSTRY had a generally positive initial reaction to a series of proposals made on Wednesday to further reduce intraday overdrafts, according to interviews with some bankers..... 3

FREDRICK H. JOSEPH, chief executive officer of Drexel Burnham Lambert Inc., said Thursday he expects his firm will suffer a "slowdown in growth" as a result of the Ivan Boesky insider trading scandal. But at the same time he claimed the firm currently maintains its dominance in a junk bond market that is surviving the scandal..... 3

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A CAPITAL FORBEARANCE program designed to give breathing room to troubled farm and energy banks is off to a slow start, regulators report..... 3

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Quote

You walk into the hotel and your room has already been paid for. You go to dinner and someone has arranged for a room. You don't know what the charges are in dollars and cents.

Shannon A. Fairbanks, Federal Home Loan Bank Board chief of staff, commenting on the practice by Bank Board senior executives of charging travel expenditures to a special account funded by the thrift industry. [Page 1]

Unquote

Bank Board Changes Reimbursement Policy After Disclosure of Sizable Charges to Industry

By RICHARD RINGER and ROBERT M. GARSSON

WASHINGTON — The Federal Home Loan Bank Board has ended a controversial practice under which Edwin J. Gray, its chairman, and other senior staff members routinely billed travel expenses to a special account funded by the financially distressed thrift industry.

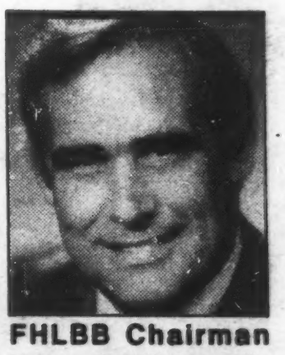
The termination of the reimbursement practices comes just days after the Bank Board released copies of expense vouchers for the senior board members in response to Freedom of Information Act requests by news organizations, including the *American Banker.*

"There is no question that the bank system has traditionally lived very well," said Bank Board Chief of Staff Shannon A. Fairbanks, in a comment about the reimbursement practices.

"There is no question that the level of expenditures for the [district] banks and the board is an absolutely legitimate area of review," she added. "And there is no question whatsoever that will be reviewed."

The documents released also showed that Mr. Gray spent more weekdays traveling than he spent working in his Washington office from the time he took office in spring of 1983 through June of this year.

The nation's savings and loans, through their ownership in the 12 regional Federal Home Loan banks, had paid for much of Mr. Gray's extensive travel expenses, including limousine services, expensive hotel rooms, and chartered yachts. That practice has now been terminated.



FHLBB Chairman Edward J. Gray calls for end to agency travel subsidized by thrift industry.

This tax on the thrifts came at a time when many of the

Bank Board: Page 12 ➤

Third World Debt Securities Urged

NEW YORK — A leading investment banker has urged the securitization of at least some bank loans to troubled developing nations as a means of easing the Third World debt crisis while providing much needed liquidity to the global financial system.

In addition, Henry Kaufman, managing director of Salomon Brothers Inc., called for the establishment of a new official international agency "with the power to, among other things, set uniform accounting, capital and reporting standards for major financial institutions."

He offered the proposals here Thursday at the U.S. congressional summit on debt and trade, the latest in a series of conferences that gather together political, business, and financial leaders to focus on the problems facing the economies of this country and the world.

Also speaking at the meeting was Treasury Secretary James A. Baker 3d,

Third World Debt: Page 14 ➤

Sales and Swaps of Third World Debt Earn Brokers' Fees for Major Banks

By GORDON MATTHEWS

NEW YORK — Major banks are increasingly active in sales and swaps of below-grade debt of developing countries — but mostly as brokers in search of fees rather than as principals seeking to shrink their own large loan portfolios to the Third World.

AN **American Banker** SPECIAL REPORT

The market this year for such loan transactions is expected to reach about $5 billion, although some participants decline to guess its size. Many deals are held confidential by the banks that are sellers or swappers — mostly medium-sized and regional banks that have posted some reserves against such debt.

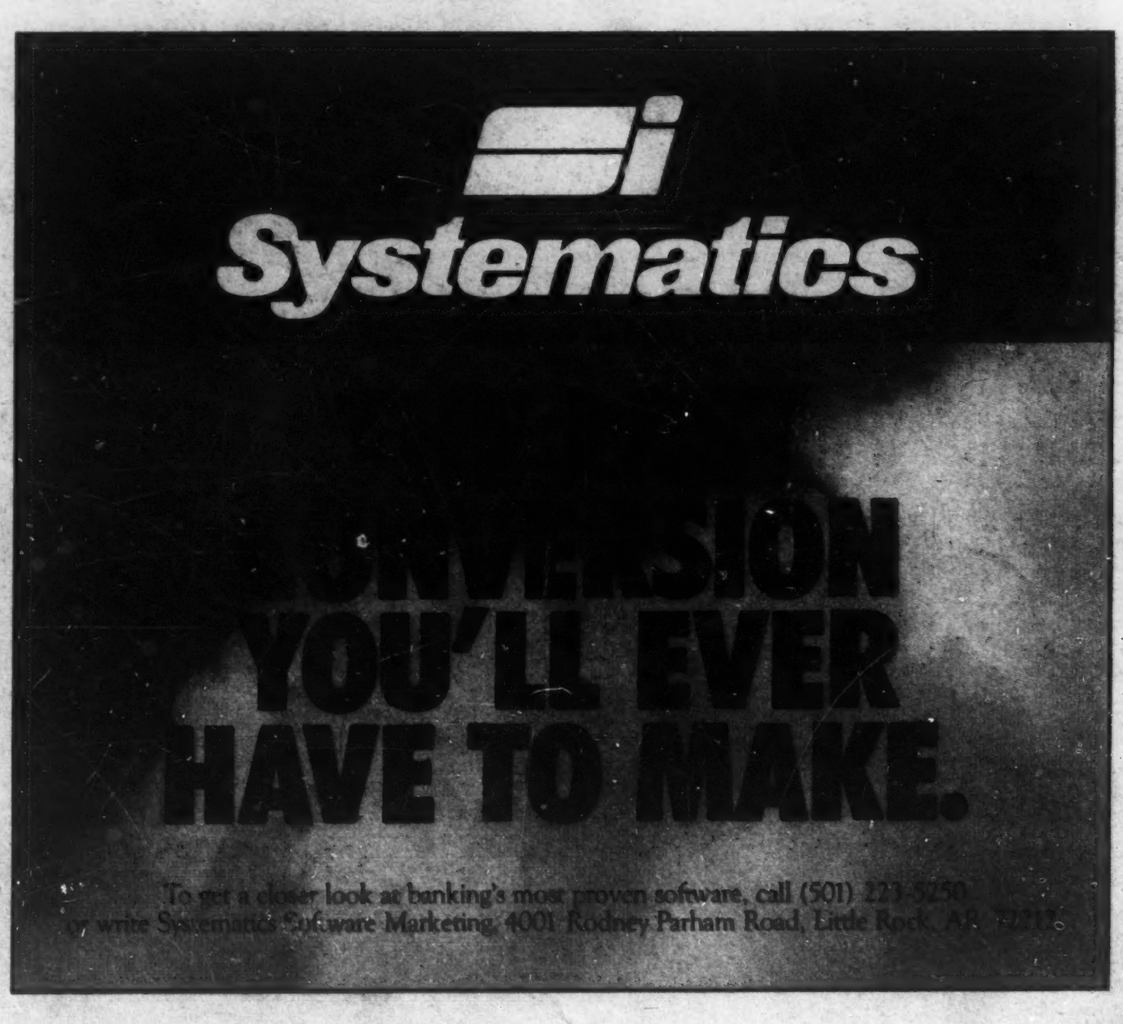
The transactions represent a small portion of the nearly $400 billion owed foreign creditors by developing nations and are not seen as a final answer to the international debt crisis. But with no real solution in sight, they are viewed as one of the few innovative moves that can help both banks and their borrowers.

The discounts from face value on the loans involved in such deals vary from 25% or less for Brazil and Venezuela to 45% for Mexico to 80% for Peru. They are also quickly changeable, depending on economic and political developments.

Nearly every money center bank now has a department that is seeking such business. Manufacturers Hanover Trust Co., for example, formed its asset redeployment group last June with a small staff of its own that draws on much help from other areas of the bank.

The leaders among banks as debt brokers are Citibank, Chase Manhattan Bank, Bankers Trust Co., and Libra

Third World: Page 16 ➤



Building Tennessee's financial future

THIRD NATIONAL CORPORATION
NASHVILLE, TENNESSEE

Bank Board . . .

Continued from Page 1

savings and loans have serious financial problems that threaten their solvency, and when the thrifts are forced to pay increased assessments to shore up the dwindling Federal Savings and Loan Insurance Corp.

"It's a matter of concern to me personally" that the Bank Board members were spending so much on travel at a time the industry is in such trouble, said Ms. Fairbanks.

Under the new policy, Bank Board employees will be reimbursed by the board only for amounts permitted for other government employees. No employee can be reimbursed by any of the district banks — individually or through the special "shared expense fund" — by trade groups, or by organizations such as the Federal Home Loan Mortgage Corp., known as Freddie Mac.

In an interview on Thursday, Ms. Fairbanks declined to criticize any of the district bank presidents who authorized and approved the expenses. But she said that neither she nor the Bank Board members in Washington were aware of how much was being spent, and that they were surprised when they saw the amounts.

"You walk into the hotel, and your room has already been paid for. You go to dinner, and someone has arranged for a room. You don't know what the charges are in dollars and cents."

The documents released under the Freedom of Information Act show that Mr. Gray spent approximately 433 weekdays on the road, and 397 full days in his office between March 23, 1983 — when he received Senate confirmation — and June 23, 1986. That estimate does not include weekends, holidays, and unrecorded vacations that Mr. Gray may have taken.

Mr. Gray's travel includes business trips throughout the country. The travel also includes many visits to his California home — often tied to his business travel — as well as trips to London, Dublin, Australia, and Rio de Janeiro. Between August 1985 and June of this year, Mr. Gray made 16 visits to his home state of California.

The documents show that Mr. Gray's traveling on government expense began even before he formally took office. He took three trips in February and March of 1983, before the Senate confirmed him on March 23 of that year.

After that vote, records show that during 1983 Mr. Gray spent approximately 88 full workweek days — not counting holidays — in his Washington office, and 107 workweek days traveling.

During November 1983, and again in December 1983, Mr. Gray was in the Washington office only six days each month.

The documents show that the nation's savings and loan associations until now have subsidized some of the travel and entertainment expenses of Mr. Gray and other Bank Board officials through the thrifts' ties to the district Federal Home Loan banks. The district banks, chartered by Congress, are funded by the savings and loans that own stock in the bank. In exchange for this ownership, a savings and loan is able to borrow funds through the Bank Board system and become eligible for deposit insurance through the Federal Savings and Loan Insurance Corp.

The district banks had established an expense account fund to which charges were debited, including travel and entertainment expenses of Mr. Gray, other Bank Board members, and, in some instances, their spouses. In addition, individual district banks routinely pay the expenses of Mr. Gray, other Bank Board members, and their spouses, the documents show.

The savings and loans aren't alone in picking up the expenses racked up by Bank Board officials. The U.S. League of Savings Institutions, a major trade association representing the thrift industry, pays all expenses that exceed a $75 per diem given to Mr. Gray and other Bank Board officials attending league functions. The payment of these expenses has been a policy of the U.S. League for about 30 years, a league spokesman said this week, and the policy adheres to the Bank Board's code of conduct.

In a related development, on Thursday, the Office of Government Ethics released a report on its investigation of Mr. Gray and the use of Federal Home Loan bank funds for travel and entertainment. Citing a lack of subpoena authority to obtain certain documents, the ethics office said it referred to the Justice Department the matter of payment of travel expenses and other gratuities to members of the board by the U.S. League and other thrift trade groups.

The practice of a trade group paying the expenses of officials who regulate the group's members is not followed widely in the financial services industry. The American Bankers Association and the Independent Bankers Association of America, the two largest trade groups representing commercial bankers, do not pay the expenses of federal bank regulators attending conventions or conferences sponsored by the associations. "Our lawyers pay close attention to these types of things," said a spokesman for the Office of the Comptroller of the Currency, the primary regulator of nationally chartered banks. The agency wants to be independent and avoid even any appearance of conflict of interest, the spokesman said.

Just days prior to the release of the documents, Mr. Gray reimbursed about $24,000 in expenses charged to the district Federal Home Loan banks. The reimbursement included $13,000 to charter a private jet used by Mr. Gray to fly from Indianapolis to California to visit his father who was gravely ill at the time.

In order to repay the district banks, Mr. Gray borrowed money from his mother. Ms. Fairbanks said the reimbursement was a "phenomenal financial burden" for Mr. Gray.

Ms. Fairbanks said she plans to spend the weekend reviewing her expense vouchers to see if any should be reimbursed. She has routinely reimbursed the banks for personal expenses that were inadvertently picked up, she added.

Expenses Billed to Shared Fund by District Banks

The following shows what each Federal Home Loan Bank contributed in the past to a common or "shared" fund which paid for portions of travel and entertainment expenses for Home Loan Bank System and Federal Home Loan Bank Board senior officials.

District	Headquarters	1983	1984	1985	1986*
1	Boston	NA	$4,705	$1,869	$471
2	New York	$2,404	$16,227	$13,734	$14,389
3	Pittsburgh	$1,444	$12,289	$26	$1,144
4	Atlanta	$4,312	$7,694	$7,113	$12,996
5	Cincinnati	$16,876	$256	$11,498	$1,651
6	Indianapolis	$1,034	$4,123	$17,371	$499
7	Chicago	NA	$5,405	$10,533	$9,442
8	Des Moines	$3,074	$15,698	$16,840	$12,053
9	Dallas	$916	$8,090	$10,767	$1,283
10	Topeka	$315	$586	$1,863	$896
11	San Francisco	NA	NA	$24,721	$22,701
12	Seattle	NA	NA	$3,653	NA
	Estimated Total	**$30,375**	**$74,932**	**$122,688**	**$77,525***

Source: Federal Home Loan Bank System.
*1986 figures are for partial year only, ranging from six to nine months.

Expenses of Home Loan Banks' Shared Fund

	1982*	1983*	1984	1985**
Budgeted	$359,554	$433,361	$1,039,094	$679,585
Funds Spent	$165,393	$79,994	$902,230	$627,248

Source: Federal Home Loan Bank System.
*Figures from Jan. 1 to Nov. 30 of year. **1985 figures through Sept. 30

Among the documents that were released are those of an account established by the 12 district Federal Home Loan banks, called a shared account. The shared account, as well as the practice of individual district banks picking up the expenses of Mr. Gray and other Bank Board officials, provides the Bank Board with operating funds that far exceed the amount appropriated by Congress. And these expense accounts clearly help the Bank Board in attempts to operate within budgetary limitations, a goal of federal agencies as part of a concerted effort to reduce the federal budget.

"We were aware that there were costs associated with the shared expense fund, but were not aware of the specific fees," Ms. Fairbanks added.

The shared fund — informally referred to by some as a slush fund — is controlled through the Federal Home Loan Bank of Chicago, one of the 12 district banks. A policy for the shared fund, adopted in July 1981, states that expenses paid by the fund "shall be limited to expenses which benefit all banks and are approved by the banks presidents."

The shared fund account was maintained by the 12 district Federal Home Loan banks and has been used to pay the business expenses incurred not only by Mr. Gray, but also by other Bank Board officials. These expenses include legitimate business costs such as hotel accommodations and meals. Moreover, the district banks have under Mr. Gray's tenure picked up an increasing amount of the supervisory and examinations costs.

The shared fund will be maintained for legitimate shared expenses of the 12 district banks, according to one board source, but will no longer be used for travel expenses.

The expenses previously charged to the shared account also include some that are likely to raise eyebrows. For example, the Federal Home Loan Bank of Dallas paid more than $3,800 in limousine fees for Mr. Gray, Ms. Fairbanks, and Bank Board directors Donald Hovde and Mary Grigsby, while they attended the U.S. League of Savings Institutions' annual convention in Dallas in November 1985.

Mrs. Grigsby also was given two pieces of "San Ildefonso black-on-black pottery" as a gift from the presidents of the district banks, which was paid for by the Federal Home Loan Bank of Topeka and cost $500.

The San Francisco bank submitted bills to the shared expense fund for $22,701.55 through the first eight months of 1986 and $24,721.77 in 1985. The expenses billed to the shared fund include bills for limousines, cocktail parties, hotel rooms, paddleboat rides, and bay cruises.

For example, while at a conference of the district bank presidents in August 1985, the fund was billed $320 for a paddleboat ride for seven people, none of whom were identified.

At a bank presidents' conference in San Francisco a year later, a yacht was chartered at a total cost of $6,924.33, including $882 for wine. Fifty-eight people were entertained on the yacht, according to the San Francisco bank's record.

Rooms at San Francisco's Fairmont Hotel, where Mr. Gray and others stayed at the conference, ranged in price from $145 a night for Ms. Fairbanks to $200 a night for board member Mr. Hovde.

At the end of the San Francisco conference, Mr. Gray traveled to Los Angeles for a dinner in his honor. Miscellaneous expenses of $5,256 were billed to the shared fund for the dinner at the Sheraton Plaza La Reina hotel and Mr. Gray's room and expenses at the Los Angeles International Airport Hilton ran to $406.67 for one night.

Bank Board officials, including Mr. Gray and agency lawyers, have previously defended the shared account fund and the way in which expenses of Bank Board officials were handled. Nonetheless, the expense reimbursement practices of the Bank Board were riddled with practical problems, Mr. Gray admitted recently in a letter to the presidents of the 12 district banks, among others.

These problems apparently helped bring an end to the way expenses were charged to the shared account.

Staff writers Jim McTague and Nina Easton contributed to this story.

Savers . . .

Continued from Page 11

Association to Melvyn Bell in a deal that would include a capital infusion for the thrift.

W.P. Gulley, president and chairman of the thrift company, said that both he and Mr. Bell "will use their collective best efforts to seek infusions of additional capital into Savers Federal" to bring the thrift's capital up to 6% of its liabilities.

While it is believed that the terms of a takeover have been reached, Savers and Mr. Bell have not yet signed an agreement. The new agreement is expected to call for a new holding company to exchange all of Savers' existing common stock for a new class of preferred stock with limited voting rights.

After five years, the preferred stock would be redeemable at a price tied to Savers' earnings performance. However, the total redemption price would not be more than $20 million.

Savers Inc. was believed to be one of the two thrift institutions whose bad fortunes stung the second quarter performance of Worthen, along with First South Federal Savings & Loan Association.

Both institutions reported second-quarter losses stemming from problem loans to commercial real estate developers in the Southeast. Those disclosures caused the prices of their stocks to nosedive, thus reducing the value of collateral backing Worthen's loans to certain individuals. ■

Strategic Dates
June 30, 1987

VAMP: The voluntary assisted merger program, the Federal Home Loan Bank Board's program enabling ailing thrifts to merge voluntarily with healthy associations and still gain federal aid, is extended until this date. The board's adoption of the program in 1982 was a temporary measure designed to assist those small thrifts that were suffering from the squeeze of high interest rates coupled with portfolios full of long-term, low-yielding mortgages.